

## SECTION 2: HEALTH INSURANCE PREMIUMS

Increases in health premiums are driven by a wide range of factors. Some of these underlying cost drivers include general inflation, medical inflation in excess of general inflation, increased utilization of health care services, higher priced technologies and new drugs, increases in wages and cost of materials, consumer demand, demographics, benefit mandates and regulations, aging, and cost shifting. This section examines health premiums and presents factual data about how premiums collected by health carriers in Colorado are used.

### Overview of Colorado Employer Provided Health Plan Premiums

Health insurance provided by employers is a key source of coverage for both employees and their families under age 65. Job-related health insurance premiums can vary for many reasons, such as the type of health insurance plan offered, the generosity (benefits) of the plan, the size of the company offering the plan, the number of persons covered by the plan, where one lives, various workforce characteristics, state health insurance regulations, and the local cost of health care. All of these factors can contribute to differences in the average health insurance premiums.

Figure 5 demonstrates how the size of an employer affects the accessibility of health insurance. Approximately 39% of small companies with less than fifty employees offer insurance compared to the 97% of larger firms that offer insurance.

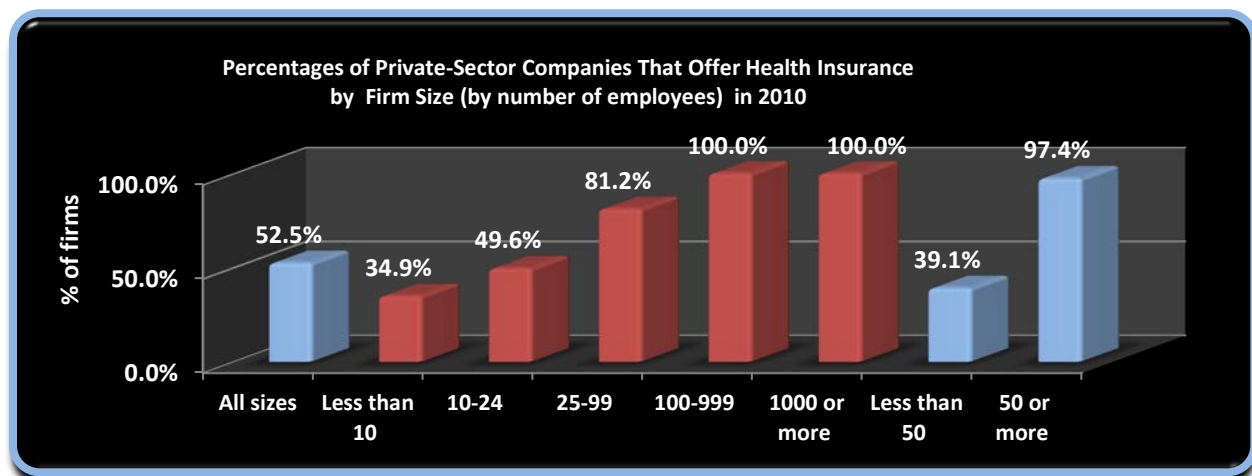


Figure 5: Percentage of Private-Sector Companies That Offer Health Insurance by Firm Size in Colorado – 2010

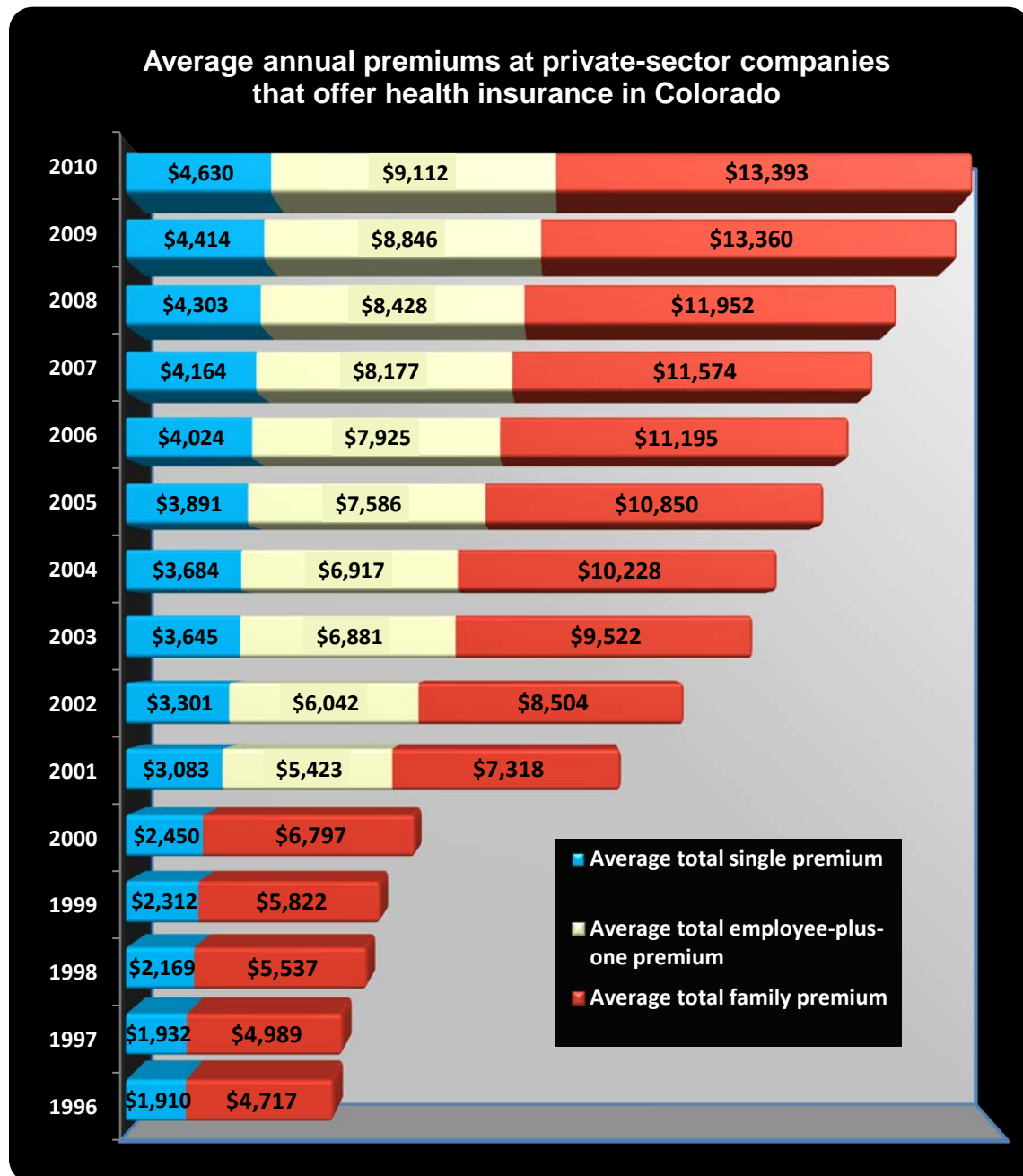
In 2010, 52% of private sector employees enrolled in employer-sponsored health insurance plans chose single coverage, with the balance choosing family coverage (a plan covering the employee and at least one other family member). According to the Insurance Component of the Medical Expenditure Panel Survey (see “Source” for Figures 5 through 8), those employees with family coverage contributed both a larger dollar amount and a larger percentage of the total premium for their coverage than did employees with single coverage.

Single Coverage	Average Annual Total Premium	Average Copayment	Average Deductible	Average Annual Employee Contribution	Average Annual Employer Contribution
Exclusive-Provider Plans	\$4,730			\$1,004	\$3,726
Mixed-Provider Plans	\$4,617	\$26	\$1,232	\$883	\$3,734
Any-Provider Plans	\$4,555			\$611	\$3,944

<b>Family Coverage</b>	<b>Average Annual Total Premium</b>	<b>Average Copayment</b>	<b>Average Deductible</b>	<b>Average Annual Employee Contribution</b>	<b>Average Annual Employer Contribution</b>
Exclusive-Provider Plans	\$13,234			\$3,566	\$9,668
Mixed-Provider Plans	\$13,370	\$26	\$2,262	\$3,630	\$9,740
Any-Provider Plans	\$14,179			\$3,592	\$10,587

**Table 6: Premiums, Copayments, Deductibles and Contributions of Premiums**

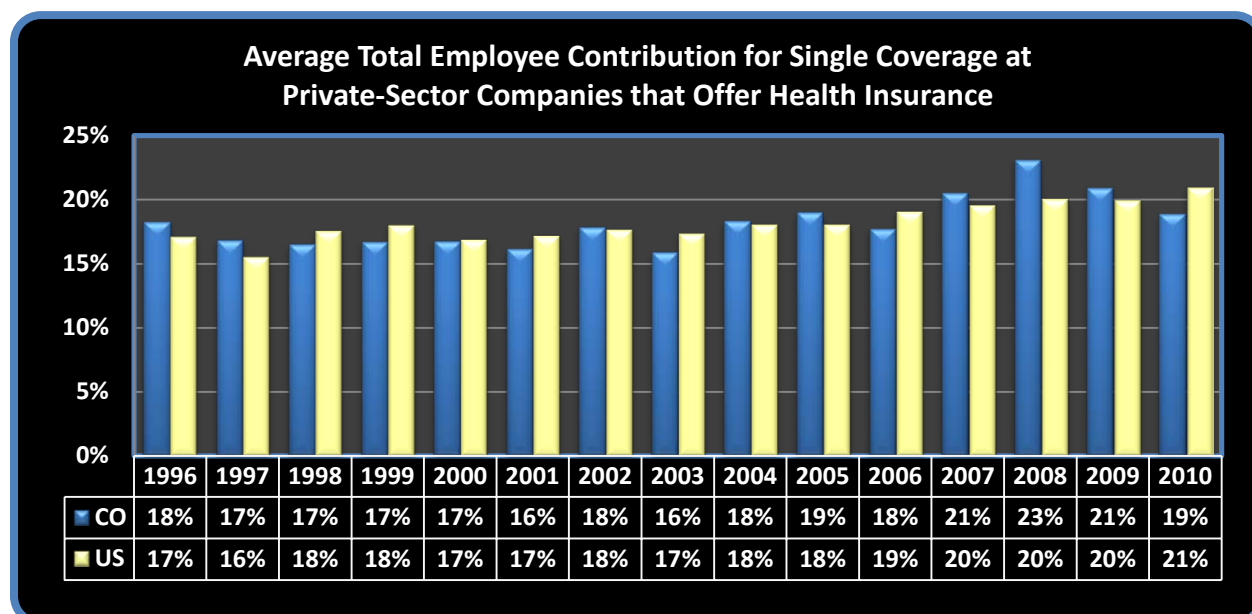
The average annual Colorado premium in 2010 was \$4,630 for single coverage and \$13,393 for family coverage. Figure 6 illustrates the increases in private employer-sponsored health premiums since 1996.



**Figure 6: Average annual premiums at private-sector companies that offer health insurance in Colorado**

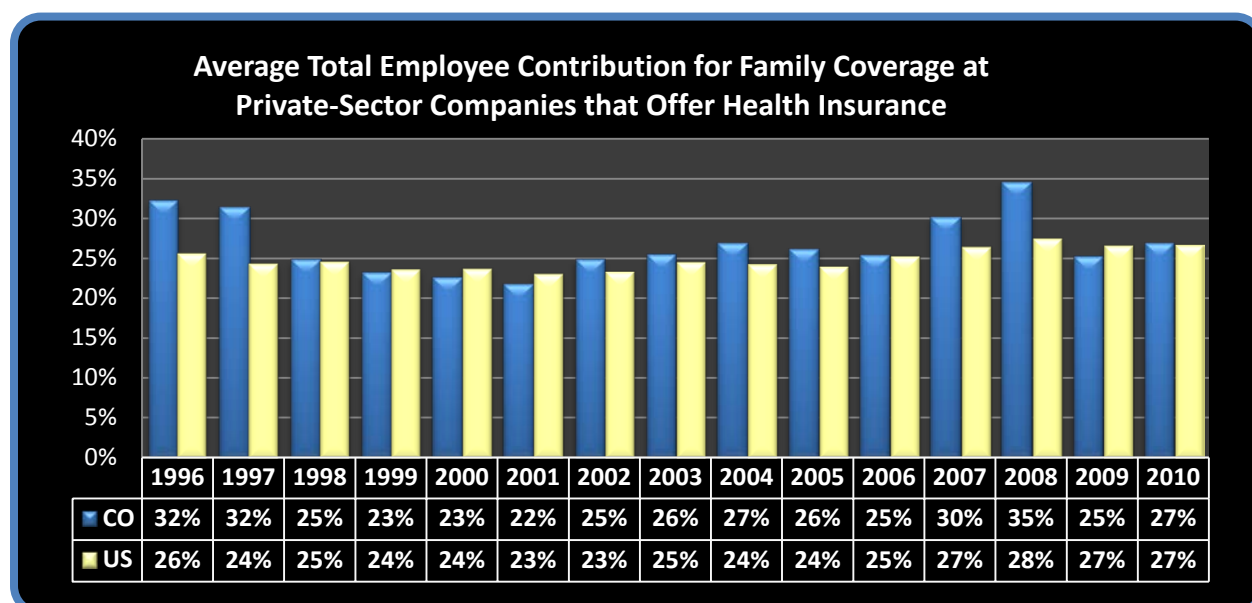
Premium costs for employer-based coverage may be paid completely by the employee, paid in part by the employer and in part by the employee, or paid completely by the employer. The following exhibits

indicate that the dollar amount that Colorado employees are contributing compared to the national average. While the percentage of health premiums that employees in Colorado are being asked to pay by their employers has been increasing more quickly than the national average in the last several years, the percentages are the same or lower than the national average in 2010.



**Figure 7: Average Total Employee Contribution for Single Coverage at Private-Sector Companies that Offer Health Insurance**

Colorado employees paid 19% of the total premium for single coverage and 27% for family coverage, compared to 21% for single coverage and 27% for family coverage, nationally. Before 2008, the data showed that the overall premium increases in Colorado were similar to those being experienced in the rest of the country. This indicates that in 2007 through 2009, Colorado employees were carrying more of the burden of premium increases than was occurring nationally. That was not the case in 2010.



**Figure 8: Average Total Employee Contribution for Family Coverage at Private-Sector Companies that Offer Health Insurance**

While 20.4% of Colorado private sector employees with single coverage were enrolled in a plan that did not require them to contribute toward the premium cost, only 12.6% of employees with family coverage and 9.3% of those with employee-plus-one coverage were in such a plan. **For both large and small employers, employees with single coverage contributed less toward their plan premium than those with family coverage.**

## Colorado Health Premium Rate Changes in Detail

Colorado law requires carriers to file any health premium rate changes with the Division of Insurance. These rate filings are reviewed by analysts and actuaries at the Division to determine whether they are in compliance with state insurance regulations. The minimum standard for the approval of a premium rate change is that the new rates must not be excessive, inadequate or unfairly discriminatory.

The most common reasons for a carrier to submit rate filings include but are not limited to;

- Increase in benefits
- Reduction in benefits
- Change needed to meet projected losses
- Trend only
- Change in rating methodology
- New product (initial offering as opposed to rate revision)
- New options/methodology

The Division summarized the health rate filings received over the last several years and has provided a more detailed summary of the premium rate changes that have occurred below.

Average Percentage Rate Increases by Type of Health Insurance						
	2006	2007	2008	2009	2010	Total 5-Year Average
Accident Only & Accidental Death and Dismemberment	-0.1	-1.0	-2.0	-4.6	0.0	-1.5
Blanket Accident & Health	1.6	0.0	1.0	1.3	1.6	1.1
Champus (military dependents)	25.0	10.0	17.5	20.2	17.5	18.0
Conversion	13.9	25.9	14.0	7.9	11.4	14.6
Dental	2.6	2.6	2.2	2.3	3.1	2.6
Disability Income	-0.2	-2.7	-3.5	-2.9	-1.4	-2.1
Excess/ Stop Loss	3.4	0.7	7.0	4.4	19.6	7.0
Health-other	0.0	-4.5	2.2	-0.8	4.0	0.2
HMO- Other	4.0	2.1	5.7	12.6	3.7	5.6
HMO-Major Medical	2.1	3.0	7.0	7.3	4.8	4.8
Hospital Indemnity	0.0	4.9	0.2	2.8	-2.3	1.1
Hospital/Surgical/Medical Expense	5.6	8.4	10.6	6.4	7.6	7.7
Limited Benefit Plan	14.6	15.8	10.3	13.3	9.4	12.7
Long-Term Care	12.1	12.9	10.1	21.7	9.9	13.3
Major Medical	7.4	8.5	7.9	9.6	8.1	8.3
Medicare Supplement	7.0	6.8	5.6	8.2	3.7	6.3
Prescription Drug	9.0	0.0	10.6	8.1	5.9	6.7
Short-Term Nursing Home	0.0	13.9	0.0	0.0	0.0	2.8
Sickness	0.0	0.0	0.0	0.0	6.6	1.3
Travel	6.7	0.0	0.0	0.0	0.0	1.3
Vision	0.2	2.2	-1.2	0.2	-2.9	-0.3
<b>Grand Total</b>	<b>5.5</b>	<b>5.2</b>	<b>5.0</b>	<b>5.6</b>	<b>5.3</b>	<b>5.3</b>

Table 7: Average Annual Percentage Rate Increases by Type of Health Insurance

Table 8 is the Average Percentages for the Comprehensive Major Medical Rate Increases from a sample of large carriers.

Major Medical	2006	2007	2008	2009	2010
Individual	14.0%	11.7%	12.9%	11.9%	11.6%
Small Group	14.7%	13.3%	9.3%	15.1%	12.7%
Large Group	9.0%	8.9%	10.5%	7.2%	7.9%

Table 8: Average Comprehensive Major Medical Rate Increases from a sample of large carriers

## Individual Market Premium Rate Changes

Average Rate Increase Percentages - Summary for Individual Health Plans in Colorado					
Year	Average Increase	Average Minimum Increase	Average Maximum Increase	Lowest Overall Increase	Highest Overall Increase
2005	5.9	5.3	8.3	-100.0	34.0
2006	9.1	8.1	10.4	-40.0	81.8
2007	9.9	7.2	11.5	-33.3	100.0
2008	8.2	6.6	10.2	-56.9	95.5
2009	8.8	6.7	10.0	-53.2	165.5
2010	5.9	7.8	13.5	-52.0	115.0
6 Year Average	8.0	6.9	10.7	-55.9	98.6

Table 9: Average Annual Percentage Rate Increase Summary for Individual Health Plans in Colorado

Average Rate Increase Percentages By Type of Individual Health Plan in Colorado							
	2005	2006	2007	2008	2009	2010	Average By Line
Accident Only & Accidental Death and Dismemberment	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0
Champus	0.0	25.0	10.0	20.0	15.3	9.9	13.4
Conversion	0.0	13.9	25.9	14.0	7.9	11.4	12.2
Dental	0.0	0.0	0.0	0.0	4.4	1.6	1.0
Disability Income	0.0	2.8	0.0	-8.0	0.0	-0.7	-1.0
Health-other	0.0	0.0	0.0	14.4	1.7	4.0	3.4
HMO- Major Medical	9.3	8.1	5.3	13.9	13.2	6.6	9.4
Hospital Indemnity	0.0	0.0	10.5	2.7	4.9	1.5	3.3
Hospital/Surgical/Medical Expense	0.0	6.5	10.2	11.3	5.9	6.6	6.7
Limited Benefit Plan	8.8	19.2	19.3	13.9	16.3	11.0	14.8
Long-Term Care	6.3	12.8	12.9	10.5	23.3	9.7	12.6
Major Medical	7.0	10.5	12.2	10.1	12.4	10.0	10.4
Medicare Supplement	5.9	7.4	7.6	5.8	5.7	4.2	6.1
Prescription Drug	0.0	30.0	0.0	0.0	6.8	0.0	6.1
Vision	0.0	0.0	0.0	0.0	0.0	-3.3	-0.6
Average by Year	2.5	9.1	7.6	7.2	7.8	4.8	6.5

Table 10: Average Annual Percentage Rate Increase by Type of Individual Health Plan in Colorado

## Large Group Market Premium Rate Changes

Average Rate Increase Percentage Summary for Large Group Health Plans in Colorado <sup>9</sup>					
Year	Average Increase	Average Minimum Increase	Average Maximum Increase	Lowest Overall Increase	Highest Overall Increase
2005	5.1	2.3	6.9	-35.0	36.5
2006	2.7	0.1	7.2	-77.9	376.8
2007	1.5	-1.2	6.5	-57.0	226.7
2008	3.1	-0.1	6.4	-50.0	70.0
2009	6.0	0.0	17.5	-61.9	902.9

<sup>9</sup> Average Rate Increase Percentage Summary for Large Group Health Plans in Colorado Includes all lines of business, not all lines are included in Table 12.

2010	3.2	-2.8	11.0	-46.7	54.5
6 year Average	3.6	-0.3	9.2	-54.8	277.9

Table 11: Average Annual Rate Increase Summary for Large Group Health Plans in Colorado

Average Rate Increase Percentages By Type of Large Group Health Plan in Colorado							
	2005	2006	2007	2008	2009	2010	6 Year Average
Accident Only & Accidental Death and Dismemberment	2.2	-0.1	-1.7	-3.5	-6.5	0.0	-1.6
Blanket Accident & Health	0.0	1.6	0.0	1.0	1.3	1.6	0.9
Champus	0.0	0.0	0.0	15.0	30.0	25.0	11.7
Dental	4.2	2.4	2.2	1.9	2.4	2.6	2.6
Disability Income	0.0	-1.3	-4.2	-1.9	-3.4	-2.0	-2.1
Excess/ Stop Loss	12.9	4.2	1.4	5.5	4.3	19.4	8.0
HMO- Major Medical	0.0	2.8	0.6	7.0	7.6	3.7	3.6
HMO-Other	-1.4	2.2	2.0	6.0	13.2	13.1	1.5
Hospital Indemnity	0.0	0.0	0.0	-1.8	0.0	11.6	1.6
Hospital/Surgical/Medical Expense	15.0	1.9	1.4	18.0	8.1	1.2	7.6
Limited Benefit Plan	0.0	0.8	2.3	0.0	2.0	11.5	2.8
Long-Term Care	0.0	0.0	0.0	0.0	2.4	5.1	1.2
Major Medical	1.5	5.1	4.0	6.3	6.0	-0.8	3.7
Medicare Supplement	7.9	5.7	4.5	5.0	24.6	5.9	8.9
Prescription Drug	-3.0	-1.5	0.0	10.6	13.3	6.6	4.3
Sickness	0.0	0.0	0.0	0.0	3.0	0.0	0.5
Travel	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Vision	0.0	-0.7	2.9	-1.5	0.0	-1.9	-0.2
Average by Year	2.2	1.3	0.9	3.8	6.0	4.2	3.1

Table 12: Average Annual Rate Increase by Type of Large Group Health Plan in Colorado

## Small Group Market Premium Rate Changes

Average Rate Increase Percentages Summary for Small Group Health Plans in Colorado <sup>10</sup>					
Year	Average Increase	Average Minimum Increase	Average Maximum Increase	Lowest Overall Increase	Highest Overall Increase
2005	0.9	-0.3	1.6	-7.0	9.1
2006	2.5	-0.2	5.6	-29.5	68.0
2007	3.4	0.2	6.8	-41.3	60.1
2008	4.1	9.0	8.1	-38.6	97.0
2009	3.7	-2.0	29.0	-60.3	902.91 <sup>11</sup>
2010	4.3	0.0	7.6	-36.2	29.0
6 Year Average	3.2	1.0	9.8	-35.5	194.4

Table 13: Average Annual Percentage Rate Increase Summary for Small Group Health Plans in Colorado

Average Rate Increase Percentages By Type of Small Group Health Plan in Colorado							
	2005	2006	2007	2008	2009	2010	6 Year Average
Accident Only	-1.0	0.0	0.0	0.0	0.0	0.0	-0.2
Dental	4.9	4.1	3.7	4.0	0.6	6.6	4.0

<sup>10</sup> Average Rate Increase Percentages Summary for Small Group Health Plans in Colorado includes all lines of business, not all lines are included in Table 14.

<sup>11</sup> While a 902.9% increase seems excessive, in some cases it may represent a unique outlier. For example, if a policy premium was \$1 annually and increased to \$10 (which would be deemed reasonable), the percentage increase would appear as 900%.

<b>Disability Income</b>	0.0	-1.2	0.3	-8.5	-13.0	0.0	-3.7
<b>Excess/ Stop Loss</b>	0.0	0.0	-5.0	16.6	4.6	20.3	6.1
<b>HMO</b>	2.9	1.9	2.3	5.1	4.5	3.3	3.3
<b>Hospital Indemnity</b>	0.0	0.0	0.0	-4.8	-2.5	0.0	-1.2
<b>Major Medical</b>	-0.6	3.2	2.9	4.5	6.2	5.3	3.6
<b>Medicare Supplement</b>	0.0	0.0	-18.0	0.0	0.0	0.0	-3.0
<b>Vision</b>	0.0	1.5	2.4	-0.9	0.8	-4.4	-0.1
<b>Average by Year</b>	<b>0.7</b>	<b>1.1</b>	<b>-1.3</b>	<b>1.8</b>	<b>0.1</b>	<b>3.4</b>	<b>1.0</b>

Table 14: Average Annual Percentage Rate Increase by Type of Small Group Health Plan in Colorado

## Additional Information on Colorado Health Premiums

In general, health care premium rates are determined by the sum of:

- projected medical expenses from claims;
- administrative expenses;
- commissions;
- taxes; and,
- profit/contingencies factors.

When submitting a rate filing with the Division, carriers are required to provide a projection of each of the components above as a percent of premium. The sum of these components as a percent of premium should equal 100% of the projected premium. The Division evaluates whether each of these components is reasonable to determine whether the rate increase or decrease is appropriate.

In accordance with § 10-16-111(4)(a), C. R. S. , health insurance carriers doing business in the state of Colorado are required to report a variety of health insurance cost information to the Division of Insurance. Based on the 2010 data collected from the Colorado Health Insurance Cost Report, the Division has been able to breakdown the above components for the year 2010 and illustrate how the health care premiums paid by Coloradans were spent by insurers.

For the 375 companies that reported, the total premium collected was over \$7 billion. This premium was for all types of health insurance coverage offered by private insurers in our state, including comprehensive major medical, dental, vision, disability income, long-term care, accident only and accidental death and dismemberment and credit health.

<b>Components of Colorado Health Care Premiums in 2010</b>		
	<b>Insurer Expense</b>	<b>Percent of Premium</b>
Medical Expenses	\$5,764,658,073	81.03%
Administrative Expenses	\$1,233,059,942	17.33%
Profit and Contingencies	\$116,656,153	1.64%
<b>Total</b>	<b>\$7,114,374,168</b>	<b>100.00%</b>

Table 15: Components of Colorado Health Care Premiums in 2010

It is important to note that the information above is from an aggregation of the data received from all 375 companies that reported. The information in Colorado Health Insurance Cost Report may not match specific company data based on allocating national data, rounding procedures and non-premium revenue. In addition, the data presented is only one year of data, 2010.

## Loss Ratios

Medical expenses are the cost of providing health care services to the insured, and include payments to hospitals, doctors and other providers. **The medical loss ratio, which is the ratio of medical expenses**



incurred divided by premiums earned, is a reflection of the cost of health care delivery and a key measure of whether premium rates are reasonable.

Some examples of the minimum loss ratio guidelines provided in Colorado Insurance Regulation 4-2-11 include:

Minimum Loss Ratio Guidelines in Colorado in 2010	
Comprehensive Major Medical (Individual)	65%
Comprehensive Major Medical (Small Group)	70%
Comprehensive Major Medical (Large Group)	75%
Dental/Vision	60%
Disability Income	60%
Long-term Care	60%
Medicare Supplement (Individual)	65%
Medicare Supplement (Group)	75%

The average loss ratio reported of 80.13% is higher than any of the minimum loss ratio guidelines provided in regulation. This indicates that any focus on controlling premium increases would have to consider trying to control the costs of providing health care services.

## Expenses

The administrative expenses of an insurer represent the cost of operating the business, including staff salaries; producer commissions; dividends to policyholders; legal expenses; lobbying expenses, advertising or marketing expenses; charitable contributions; and taxes, licenses and fees. The Colorado Health Insurance Cost Report asked insurers to provide the amount they paid for each of these types of expenses in Colorado during 2010. If an insurer was unable to isolate a particular expense so that it represented the portion attributable to their Colorado health insurance business, the insurers were asked to allocate it using earned premium. A summary of the expenses reported by the insurers submitting a Colorado Health Insurance Cost Report is in Table 16. Executive salaries are reported with the Health Insurance Cost Report, but are not part of Staff Salaries, and are not reported on the table below.

Administrative Expenses 2010		
Administrative Expenses	Insurer Expense	Percent of Premium
Commissions	\$159,423,218	2.24%
Staff Salaries	\$312,428,159	4.39%
Dividends to Policyholders	\$7,251,092	0.10%
Legal Expenses	\$5,886,436	0.08%
Advertising or Marketing	\$46,846,811	0.66%
Lobbying Expenses	\$885,472	0.01%
Charitable Contributions	\$69,986,055	0.98%
Federal Income Taxes	\$116,983,864	1.64%
State Taxes, Licenses and Fees	\$88,904,467	1.25%
All Other	\$424,464,369	5.97%
<b>Total</b>	<b>\$1,233,059,942</b>	<b>17.33%</b>

Table 16: Administrative Expenses reported from 375 carriers in the Colorado Health Cost Report

## Medical Trend

Medical cost trend is the projected increase in the costs of medical services assumed in setting premiums for health insurance plans. Insurance companies use medical cost trends to estimate what the same plan would cost in the next year. Medical cost trend is influenced primarily by:

- Unit cost inflation, or changes in the intensity and the unit price of medical products and services.



- Utilization increases, or changes in the volume of services used, which may be affected by demographic changes, advertising, and the use of new technology.

Medical expenses are subject to inflation, in the same way as most products and services. Medical trend is higher than normal inflation primarily because of increases in utilization. Utilization is the measurement of the use of health insurance by employees of an insured employer, stated in terms of the average number of claims per employee. In general the cost of each service tends to rise with the overall inflation level but each additional service a policyholder receives adds directly to the cost of health insurance. Additionally as the intensity of the service increases the cost increases.

For example, more and more diagnostic imaging shifts from older technologies such as x-rays towards more advanced imaging such as MRI. The overall costs rise much faster than inflation because of the cost differential between an x-ray and an MRI even though there may not have been a large increase in per-unit cost of x-rays or MRIs or the overall number of services has increased since only one image may be taken.

This inflation is generally built into the premium rate increases that health carriers apply to their products, and it is referred to as medical trend. Medical trend is composed of four components, provider price increases, utilization changes, cost shifting and the introduction of new procedures and technology. In addition, these numbers will vary with benefit plan design. An example of this is demonstrated in Table 17 below. It represents the medical trend for comprehensive major medical plans by individual and group size for the past five years, submitted by carriers through rate filings to the Division.

<b>Comprehensive Major Medical Premium Trend</b>					
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Individual</b>	17.10%	13.30%	11.80%	13.30%	6.60%
<b>Small Group</b>	13.40%	10.80%	10.90%	11.10%	11.00%
<b>Large Group</b>	11.20%	11.90%	9.00%	8.40%	8.00%

**Table 17: Comprehensive Major Medical Premium Trend from a sample of Large Carriers**

Cost trends may vary from market to market, depending on the level of provider and health plan competition and the regional economy. The individual market tends to be the most volatile so the actual population projected varies the most from year to year. In addition, individuals will tend to have plans with more policyholder cost sharing. These plans initially cost less but have higher cost increases as medical inflation erodes the effectiveness of the policyholder cost sharing. Finally, applicants in the individual market tend to have a reason for applying to the individual market and therefore may be more likely to develop medical conditions after purchasing the policy.

The opposite effects are seen in the large group market. Populations tend to be fairly stable and have lower cost sharing. Employers also seek to enroll most healthy employees, thereby spreading the risk of employees with medical conditions across a broader population.

## **Cost Shifting**

Private health insurance premiums are higher, to some degree, because different populations pay different amounts for the same care. Uninsured individuals and members of government programs such as Medicaid and Medicare, typically pay less than commercially insured populations. Doctors and hospitals charge commercial insurers more for the services provided to provide an adequate overall margin. In turn, the costs that are shifted to insurers are passed on in the form of higher premiums to consumers and businesses that purchase health coverage. A detailed examination of cost shifting and many of the other factors that are driving the increase in health costs are beyond the scope of this report.